

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BAC 3644 – TAXATION 2

(All sections / Groups)

17 OCTOBER 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 8 pages excluding the cover page with 5 (five) Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

a) What are the conditions that an individual must satisfy under the Real Property Gains Tax 1976 (as amended) to qualify for an exemption from real property gains tax, in respect of a private residence?

(4 marks)

b) Naqib and Tee are close friends, and they have known each other for quite some time. On 1 April 2015, Tee received a lucrative job offer from Sweden company. He took the offer, and sold his condominium to Naqib for RM293,000. The sale and purchase agreement was signed on 1 July 2015. Other expenses incurred by Naqib were legal fees of RM10,000 and stamp duty of RM6,000. He renovated the property for a cost of RM20,000.

On 30 March 2018, Naqib received an offer to sell the condominium to his neighbour, Syawal. Syawal paid him a deposit of RM7,000. However, due to lack of loan facility, Syawal decided not to pursue the acquisition and the deposit was forfeited to Naqib.

On 31 May 2018, Naqib signed a sale and purchase agreement to dispose of the condominium to Dream Scape Sdn Bhd for RM400,000. The agent's fees on the disposal amounted to RM5,219.

Required:

i) Determine the acquisition date and disposal date of the condominium that should be used by Naqib in determining the real property gains tax payable by him.

(4 marks)

ii) Compute the real property gains tax payable (if any) on the disposal of real property by Naqib.

(12 marks)

[Total: 20 marks]

QUESTION 2

TRJ Global Sdn Bhd (TRJ) is a local resident company engaged in the production of green household goods. The goods are made from recycled materials. The company is incorporated in April 2003 with paid up capital of RM4 million. The company has provided the following information in respect of the accounts for the year ended 31 December 2018.

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	Note	RM'000	RM'000
Cash sales			2,800
Credit sales			1,950
Less: Cost of sales	1		<u>2,100</u>
			2,650
Add: Other income			
Foreign exchange gain	2		27
Gain from disposal of land	3		<u>190</u>
			2,867
Less: Expenses			
Advertising and promotion expenses	4	30	
Utilities	5	340	
Salary and wages		1,200	
Depreciation		250	
Lease charges	6	65	
Professional fees	7	25	
Employees Provident Fund	8	30	
Bad and doubtful debts	9	165	
Repair and maintenance expenses	10	70	
Donation	11	20	
Entertainment	12	<u>18</u>	<u>2,213</u>
Net profit before taxation			<u>654</u>

Notes:

- Cost of sales include:

	RM
Provision for stock obsolescence (3% of cost)	35,000
Stock written off	21,000
Unrealised foreign exchange loss on the settlement of stock	46,000
- The company had made purchases of stock from Japan. It is expected that the foreign exchange gain of RM27,000 would be realized when the company make full payment in January 2019.
- The company disposed one of its lands in order to increase the company's liquidity and at the same time, settle its liability to the banks.
- Advertising and promotion expenses consist of advertising in the local media. However, a sum of RM2,000 refers to a wedding gift for the managing director of the company.
- Utilities refers to expenses utilise for the business during the year.

Continued...

6. The company leased two vehicles for short term use. The first vehicle, a new car of RM160,000 for its directors. The lease charges paid for the car so far is RM45,000.

The second vehicle, a mini lorry for the delivery of goods. The lorry was licensed as the commercial transportation of goods. The cost of the lorry was RM43,210. The lease charges paid for the lorry so far is RM20,000.

7. Professional fees refers to cost of accounting and audit fees, and book keeping fees of the business.
8. The company contributed at the rate of 11% of salaries and wages to Employee Provident Fund, an approved government agency for the retirement funds. ages paid.
9. Bad and doubtful debts consist of the general provision of bad debts and trade bad debt written off of RM90,000 and RM75,000 respectively.
10. Repair and maintenance expenses refer to frequent repair of business vehicles and frequent maintenance of business building.
11. The company made a cash donation of RM15,000 to Environmental Protection Society of Malaysia (EPSM), an approved institution. The balance of RM5,000 was donated to 100 orphans from orphanage house in Klang Valley.
12. Entertainment refers to expenses for employees annual dinner and employees family day of RM10,248 and RM7,752 respectively.

Other information:

Company is eligible to claim capital allowances and balancing allowance of RM195,000 and RM28,000 respectively. During the year, the company incurred zakat expense of RM25,000.

Required:

Starting with the 'net profit before taxation', compute the income tax payable of TRJ Global Sdn Bhd for the year of assessment 2018.

Note: You are NOT required to explain the adjustments made in the tax computation except to indicate "Nil" where no adjusting entries are required. Show all workings

(20 marks)

QUESTION 3

- a) Tax investigation is an in-depth inspection by a tax authority in order to recover tax undercharged and ensure accuracy of tax filing. The process engages taxpayers who are suspected to be involved in fraud, willful defraud or negligence in reporting their income. Normally, it begins with an unexpected visit to the taxpayer's business premises, where tax investigator will take custody of the required documents and books of accounts for investigation purposes.

Continued...

Required:

i) Explain the factors that would trigger a tax investigation into the tax affairs of a taxpayer? (5 marks)

ii) Explain the methods generally used by tax authority to discover tax discrepancy? (6 marks)

b) A taxpayer had furnished the following gross profits in his returns for the years of assessment 2015 to 2018 based on the relevant cost of goods sold as indicated in the table below:

Year of assessment	2015	2016	2017	2018
Cost of goods sold	65,460	129,301	200,802	289,014
Gross profit as per the returns	21,120	45,400	71,000	97,260

The Inland Revenue Board's investigations revealed that gross profit should be 40% for the type of business carried on by the taxpayer.

Required:

Determine the omitted income for the relevant years of assessment, assuming that the cost of goods sold shown for the relevant years are acceptable. Advise the taxpayer based on the result shown by the omitted income.

(9 marks)

[Total: 20 marks]

QUESTION 4

a) Tropika Subur Sdn Bhd commenced a business involving the cultivation of local fruits, an approved agricultural project, on 1 January 2016. The fruits are planted on a piece of land measuring 10 acres. The following expenses in respect of the farm were incurred during the financial year ended 31 December 2016:

	RM
Cost of land (10 acres)	1,900,000
Clearing land	50,000
Construction of road	12,000
Seedlings and fertilizer	95,000
Construction of labors' quarters	240,000

Continued...

Due to the unpredictable weather and fluctuating price of local fruits, Tropika Subur Sdn Bhd decided to sell its entire farm to Green Rimbun Sdn Bhd on 1 May 2018, at the purchase price of RM3.5 million.

Required:

Compute the agriculture allowance and agriculture charge (if any) due to Tropika Subur Sdn Bhd for all relevant year of assessment up to the year of assessment 2018. Assuming the company does not make any election under para. 27, Income Tax Act 1967.

(10 marks)

- b) Kuala Mines Sdn Bhd ('KMSB') commenced mining operation on 1 September 2017. The mine is located at Bukit Larut, Perak. The estimated life of the mine as at that date was 8 years. The company adopted 31 May as its year end to close the account.

Date incurred	Types of expense	RM
1.9.2017	Cost of site	367,000
1.9.2017 – 31.5.2018	Testing and prospecting expenses	40,000
	Roads	28,000
	Mining works and structures	65,000

On 1 June 2019, due to financial issue and global economic downturn, the company disposed the mine for RM478,000.

Required:

Calculate the mining allowance, the residual expenditures and the gross income (if any) for each relevant years of assessment.

(10 marks)

[Total: 20 marks]

QUESTION 5

- a) Atlas Chemicals Sdn Bhd, a Malaysian incorporated company and is resident in Malaysia for Malaysian tax purposes. Its only source of income is the manufacturing operations carried on in Nilai, Negeri Sembilan. In year 2019, the company entered into an agreement with Hian Joo Ltd from China for technical assistance and supply cum installation of machines. The following expenses have been incurred:

No.	Particular	RM
1.	Supply of machines	168,712
2.	Services in connection with installation of the machines	17,500
3.	Technical and management advice	23,000

Continued...

Required:

State with reasons whether each of the given amounts is subject to withholding tax. Where applicable, state the rate of withholding tax.

(6 marks)

b) Falcon Manufacturing Sdn Bhd ('FMSB') is a manufacturing company located in a promoted area. The company was granted pioneer status for a period of five years effective from 1 October 2018. Besides, the company operates a non-pioneer business and closed its account to 30 September 2019. The business result for the year ended 30 September 2019 is as follows:

	RM
Pioneer business – manufacture of green technology products	
Adjusted income	620,000
Capital allowance	260,000
Non pioneer business – trading of green technology products	
Adjusted loss	(292,000)
Balancing charge	16,000
Capital allowance	28,000
Other income: adjusted rental	65,000

Required:

Compute the chargeable income and exempted income of Falcon Manufacturing Sdn Bhd for the year of assessment 2019.

(14 marks)

[Total: 20 marks]

End of question

APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of resident company

Company with paid-up capital of not more than RM2.5 million

Chargeable income	Rate
<= RM500,000	18%
Excess RM500,000	24%

Company with paid-up capital of more than RM2.5 million

All chargeable income	24%
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ii) Tax rates of non-resident company

All chargeable income	24%
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iii) Non-resident tax rate (other than non-resident company)

Type of income	Year 2018
	Rate of Tax (%)
Interest	15
Royalty	10
Technical and management fees	10
Lease rental of movable properties	10
Other income	28
Section 4(f) income	10

iv) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

Continued ...

v) **Agriculture and forest allowance**

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure-Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

vi) **Real property gains tax****Disposal by all persons**

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

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